

# PERAC AUDIT REPORT



## Worcester Regional Contributory Retirement System



JAN. 1, 2012 - DEC. 31, 2015





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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chairman*

JOHN W. PARSONS, ESQ., *Executive Director*

Auditor SUZANNE M. BUMP | KATHLEEN M. FALLON | KATE FITZPATRICK | JAMES M. MACHADO | ROBERT B. MCCARTHY | JENNIFER F. SULLIVAN

August 7, 2019

The Public Employee Retirement Administration Commission has completed an examination of the Worcester Regional Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2012 to December 31, 2015. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Scott Henderson, Elaine Pursley and Carol Poladian who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



John W. Parsons, Esq.  
Executive Director





# EXPLANATION OF FINDINGS AND RECOMMENDATIONS

## **I. Member Deductions:**

The auditor sampled payrolls from 50 (out of 97) member units to determine the accuracy of the members' deduction rates, base deductions and the additional 2% deductions. Errors were found in 12 different units. The types of errors were:

- Math errors in the calculation of members' base deductions.
- Problems with 2% deductions, including both miscalculations and not applying it when the annual compensation is greater than \$30,000.
- Pay types that are not regular compensation had retirement deductions taken.
- Two members did not have any base deductions taken. (The additional 2% deductions were not applicable because annual compensations were less than \$30,000.)

**Recommendation:** Base and additional 2% deduction calculations should be reviewed and tested for accuracy. The Board should set up procedures for the regular review of payrolls from each unit.

## **Board Response:**

The Board has an extensive outreach program whereby it offers several training sessions and workshops each year to the Worcester Regional Retirement System ("System") member unit treasurers, payroll clerks and human resource personnel. During this audit period, the Board conducted one such session for over 50 attendees. The Board staff continuously works with the staff of our 100 System member units and when problems are discovered, they are addressed immediately. The Board staff will continue to resolve all payroll errors in a timely manner and the Board will work toward implementing PERAC's recommendations.

## **2. Expenses:**

In our review of expenses we noted deficiencies in four areas: lack of approved credit card regulations, supporting documentation of credit card expenditures, timely requests for reimbursement of travel expenses and lack of signatures on the expense warrants.

- No credit card regulations were submitted to or approved by PERAC as required by PERAC 840 CMR 2.11; therefore, credit card usage was not authorized.
- The Board has authorized a Bank of America credit card to be used for work related expenses. We reviewed the credit card expenditures, which totaled \$108,757, for the four year period under audit and noted the following:
  - Supporting documentation for expenditures totaling \$92,945 was not presented to the Board with the credit card statement for their review at the monthly Board meetings.
  - Upon request, WRRS did provide the supporting documentation for \$85,767 of the \$92,945 in expenses. Documentation for the remaining \$7,178 could not be produced. These unsupported expenses consisted of hotels (\$1,373), meals (\$4,560), parking (\$339), and other miscellaneous expenses (\$906). Pursuant to 840 CMR 2.11(1), “. . . [the] card user shall be required to provide receipts for all expenses

## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

included in the statement. If receipts are not provided, the user will immediately reimburse the Board for those items that appear on the credit card billing.”

- The sample of travel expenses reviewed included reimbursements for expenses that were close to six months old. Pursuant to 840 CMR 2.04 (2), reimbursement payments should be made within sixty days of incurrence.
- Expense warrants were not signed off by the Board as of the date of the Board meeting.

**Recommendation:** The Board should suspend all usage of the credit card pending the drafting and approval of credit card regulations. Documentation (receipts, invoices, etc.) for all expenditures incurred using the credit card should note the purpose of the expenditure and be attached to the monthly credit card statement for the Board’s review and approval.

Requests for reimbursements of travel and travel-related expenses should be submitted within the required sixty days of incurrence with original receipts that note the purpose of the expenditure.

The Board should be signing and dating the monthly warrants as of the date of the Board meeting. It is our understanding that the Board will implement this practice in the current year.

### **Board Response:**

The Board has adopted a new supplemental regulation, which PERAC is currently reviewing, that should address any concerns PERAC has relating to travel expenses. The Board has implemented internal controls and procedures to insure that each and every expenditure is supported and corroborated with documentation. All expenses have been and continue to be reported on warrants that are presented, reviewed, voted upon and signed by the Board members at each monthly meeting. This has been the Board's practice for decades, and during my more than a decade as Board counsel, I can confirm that I have personally observed this to be the practice that occurs at each and every meeting I have attended.

The Board would also note that in 2017, the National Conference of Public Employee Retirement Systems ("NCPERS") conferred upon it a Certificate for Transparency in Reporting. The Board takes great pride in receiving this award, and it will continue to maintain as it always has reporting excellence.

### **3. Accounts Receivable and Accounts Payable**

We noted that there are no reversals against accounts receivable as monies are received. Monies are applied directly to the income accounts instead of against the receivable balance; the full balance is then reversed at year-end. This results in overstated income throughout the year until December’s reversal.

The accounts payables follow a similar procedure therefore overstating the expenses throughout the year.



## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

**Recommendation:** Accounts receivable should be credited upon receipt of accrued income in the following months. Similarly, accounts payable should be debited as accrued expenses are paid.

**Board Response:**

The Board has corrected its method of recording both receivables and payables, commencing in calendar year 2018. The Board had adopted the year-end adjusting entry approach for the purpose of simplifying the process of providing our actuary with cash flow information. As the Board's financial statement is issued on an annual basis, the Board does not feel that the results would be in any way compromised utilizing this approach.

**FINAL DETERMINATION:**

***PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.***

# STATEMENT OF LEDGER ASSETS AND LIABILITIES

AS OF DECEMBER 31,				
	2015	2014	2013	2012
<b>Net Assets Available For Benefits:</b>				
Cash	\$8,256,694	\$6,557,512	\$5,807,265	\$4,390,502
Pooled Alternative Investment Funds	5,537,389	9,790,870	11,389,464	11,238,998
Pooled Real Estate Funds	6,002,240	15,446,297	14,018,207	16,582,706
PRIT Fund	554,348,825	519,729,613	479,684,309	413,742,500
Accounts Receivable	5,540,939	3,186,069	1,346,904	1,013,647
Accounts Payable	(5,727,931)	(2,207,889)	(9,563)	(8,798)
<b>Total</b>	<u>\$573,958,157</u>	<u>\$552,502,472</u>	<u>\$512,236,584</u>	<u>\$446,959,556</u>
<b>Fund Balances:</b>				
Annuity Savings Fund	\$256,353,295	\$239,280,974	\$227,608,445	\$217,843,755
Annuity Reserve Fund	63,025,702	56,749,092	52,875,189	49,717,967
Pension Fund	263,178	3,027,464	5,855,728	8,175,873
Military Service Fund	146,258	119,508	110,955	96,272
Expense Fund	0	0	0	0
Pension Reserve Fund	<u>254,169,724</u>	<u>253,325,434</u>	<u>225,786,268</u>	<u>171,125,689</u>
<b>Total</b>	<u>\$573,958,157</u>	<u>\$552,502,472</u>	<u>\$512,236,584</u>	<u>\$446,959,556</u>

## STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2012)	\$205,821,738	\$47,957,568	\$11,303,798	\$73,957	\$0	\$130,946,810	\$396,103,870
Receipts	24,775,386	1,429,088	36,517,941	22,315	3,668,073	48,506,660	114,919,464
Interfund Transfers	(8,827,565)	8,548,565	8,606,782	0	0	(8,327,782)	0
Disbursements	(3,925,803)	(8,217,254)	(48,252,647)	0	(3,668,073)	0	(64,063,778)
Ending Balance (2012)	217,843,755	49,717,967	8,175,873	96,272	0	171,125,689	446,959,556
Receipts	25,430,853	1,497,211	39,346,430	14,683	4,095,749	60,736,790	131,121,717
Interfund Transfers	(10,564,975)	10,477,423	6,163,763	0	0	(6,076,211)	0
Disbursements	(5,101,189)	(8,817,413)	(47,830,338)	0	(4,095,749)	0	(65,844,688)
Ending Balance (2013)	227,608,445	52,875,189	5,855,728	110,955	0	225,786,268	512,236,584
Receipts	28,457,809	1,610,672	44,219,748	14,811	4,284,195	37,397,039	115,984,273
Interfund Transfers	(12,022,899)	12,008,965	9,878,064	(6,257)	0	(9,857,872)	0
Disbursements	(4,762,381)	(9,745,733)	(56,926,076)	0	(4,284,195)	0	(75,718,386)
Ending Balance (2014)	239,280,974	56,749,092	3,027,464	119,508	0	253,325,434	552,502,472
Receipts	51,049,008	1,713,549	48,569,589	24,982	4,274,899	(1,711,083)	103,920,943
Interfund Transfers	(29,027,208)	15,612,130	10,857,936	1,769	0	2,555,373	0
Disbursements	(4,949,479)	(11,049,069)	(62,191,811)	0	(4,274,899)	0	(82,465,258)
Ending Balance (2015)	<u>\$256,353,295</u>	<u>\$63,025,702</u>	<u>\$263,178</u>	<u>\$146,258</u>	<u>\$0</u>	<u>\$254,169,724</u>	<u>\$573,958,157</u>

# STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,				
	2015	2014	2013	2012
<b>Annuity Savings Fund:</b>				
Members Deductions	\$25,068,898	\$23,691,478	\$22,684,744	\$21,933,198
Transfers from Other Systems	24,505,428	4,027,631	1,478,210	1,916,567
Member Make Up Payments and Re-deposits	558,511	277,399	536,548	661,719
Member Payments from Rollovers	679,275	240,838	520,155	62,625
Investment Income Credited to Member Accounts	<u>236,896</u>	<u>220,464</u>	<u>211,196</u>	<u>201,277</u>
Sub Total	<u>51,049,008</u>	<u>28,457,809</u>	<u>25,430,853</u>	<u>24,775,386</u>
<b>Annuity Reserve Fund:</b>				
Investment Income Credited to the Annuity Reserve Fund	<u>1,713,549</u>	<u>1,610,672</u>	<u>1,497,211</u>	<u>1,429,088</u>
<b>Pension Fund:</b>				
3 (8) (c) Reimbursements from Other Systems	1,628,839	2,986,852	1,243,347	1,400,796
Received from Commonwealth for COLA and Survivor Benefits	335,563	388,433	818,626	1,353,257
Pension Fund Appropriation	46,571,146	40,790,359	37,222,011	33,732,526
Settlement of Workers' Compensation Claims	18,250	29,190	36,703	10,800
Recovery of 91A Overearnings	<u>15,790</u>	<u>24,914</u>	<u>25,743</u>	<u>20,562</u>
Sub Total	<u>48,569,589</u>	<u>44,219,748</u>	<u>39,346,430</u>	<u>36,517,941</u>
<b>Military Service Fund:</b>				
Contribution Received from Municipality on Account of Military Service	24,846	14,685	14,572	22,246
Investment Income Credited to the Military Service Fund	<u>136</u>	<u>126</u>	<u>111</u>	<u>70</u>
Sub Total	<u>24,982</u>	<u>14,811</u>	<u>14,683</u>	<u>22,315</u>
<b>Expense Fund:</b>				
Investment Income Credited to the Expense Fund	<u>4,274,899</u>	<u>4,284,195</u>	<u>4,095,749</u>	<u>3,668,073</u>
<b>Pension Reserve Fund:</b>				
Federal Grant Reimbursement	112,484	133,435	168,247	154,591
Miscellaneous Income	4,716	13,642	10,841	7,594
Excess Investment Income	<u>(1,828,283)</u>	<u>37,249,962</u>	<u>60,557,703</u>	<u>48,344,476</u>
Sub Total	<u>(1,711,083)</u>	<u>37,397,039</u>	<u>60,736,790</u>	<u>48,506,660</u>
<b>Total Receipts, Net</b>	<u>\$103,920,943</u>	<u>\$115,984,273</u>	<u>\$131,121,717</u>	<u>\$114,919,464</u>

# STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,				
	2015	2014	2013	2012
<b>Annuity Savings Fund:</b>				
Refunds to Members	\$2,505,504	\$2,518,137	\$2,623,044	\$2,364,405
Transfers to Other Systems	<u>2,443,974</u>	<u>2,244,245</u>	<u>2,478,145</u>	<u>1,561,399</u>
Sub Total	<u>4,949,479</u>	<u>4,762,381</u>	<u>5,101,189</u>	<u>3,925,803</u>
<b>Annuity Reserve Fund:</b>				
Annuities Paid	10,830,734	9,546,623	8,714,615	7,967,769
Option B Refunds	<u>218,335</u>	<u>199,110</u>	<u>102,798</u>	<u>249,485</u>
Sub Total	<u>11,049,069</u>	<u>9,745,733</u>	<u>8,817,413</u>	<u>8,217,254</u>
<b>Pension Fund:</b>				
Pensions Paid:				
Regular Pension Payments	43,753,485	39,363,304	36,630,341	34,261,889
Survivorship Payments	2,490,197	2,180,991	2,098,060	1,945,611
Ordinary Disability Payments	521,495	525,715	529,467	517,794
Accidental Disability Payments	6,760,292	6,022,223	5,935,620	5,574,567
Accidental Death Payments	809,422	800,048	770,685	763,106
Section 101 Benefits	196,692	182,138	183,978	166,462
3 (8) (c) Reimbursements to Other Systems	<u>7,660,227</u>	<u>7,851,657</u>	<u>1,682,187</u>	<u>5,023,218</u>
Sub Total	<u>62,191,811</u>	<u>56,926,076</u>	<u>47,830,338</u>	<u>48,252,647</u>
<b>Expense Fund:</b>				
Board Member Stipend	22,500	22,500	22,500	18,750
Salaries	572,815	560,769	516,286	471,431
Legal Expenses	92,971	98,033	76,788	85,233
Medical Expenses	70	0	320	30
Travel Expenses	8,987	12,395	14,847	10,201
Administrative Expenses	136,606	143,235	119,251	112,117
Professional Services	22,329	0	0	0
Actuarial Services	21,550	28,525	14,600	26,475
Education and Training	7,354	2,183	4,376	6,086
Furniture and Equipment	1,358	19,977	7,603	13,228
Management Fees	3,219,237	3,229,898	3,156,775	2,765,730
Rent Expenses	79,611	79,611	79,611	79,621
Service Contracts	39,973	38,871	36,904	33,345
Fiduciary Insurance	<u>49,538</u>	<u>48,200</u>	<u>45,888</u>	<u>45,825</u>
Sub Total	<u>4,274,899</u>	<u>4,284,195</u>	<u>4,095,749</u>	<u>3,668,073</u>
<b>Total Disbursements</b>	<u>\$82,465,258</u>	<u>\$75,718,386</u>	<u>\$65,844,688</u>	<u>\$64,063,778</u>

# INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,				
	2015	2014	2013	2012
<b>Investment Income Received From:</b>				
Cash	\$13,179	\$14,944	\$5,143	\$44,432
Pooled or Mutual Funds	<u>6,714,802</u>	<u>7,004,049</u>	<u>6,636,229</u>	<u>13,721,594</u>
<b>Total Investment Income</b>	<u>6,727,981</u>	<u>7,018,993</u>	<u>6,641,372</u>	<u>13,766,025</u>
<b>Plus:</b>				
Realized Gains	9,342,609	11,106,467	10,684,938	11,999,504
Unrealized Gains	<u>13,336,625</u>	<u>16,062,256</u>	<u>27,564,568</u>	<u>53,098,419</u>
Sub Total	<u>22,679,234</u>	<u>27,168,723</u>	<u>38,249,506</u>	<u>65,097,923</u>
<b>Less:</b>				
Realized Loss	(123,843)	0	0	(376,399)
Unrealized Loss	<u>(26,540,293)</u>	<u>(14,686,125)</u>	<u>(12,250,470)</u>	<u>(24,844,566)</u>
Sub Total	<u>(26,664,136)</u>	<u>(14,686,125)</u>	<u>(12,250,470)</u>	<u>(25,220,965)</u>
<b>Net Investment Income</b>	<u>2,743,079</u>	<u>19,501,591</u>	<u>32,640,408</u>	<u>53,642,984</u>
<b>Income Required:</b>				
Annuity Savings Fund	236,896	220,464	211,196	201,277
Annuity Reserve Fund	1,713,549	1,610,672	1,497,211	1,429,088
Military Service Fund	136	126	111	70
Expense Fund	<u>4,274,899</u>	<u>4,284,195</u>	<u>4,095,749</u>	<u>3,668,073</u>
<b>Total Income Required</b>	<u>6,225,480</u>	<u>6,115,457</u>	<u>5,804,267</u>	<u>5,298,508</u>
Net Investment Income	<u>2,743,079</u>	<u>19,501,591</u>	<u>32,640,408</u>	<u>53,642,984</u>
Less: Total Income Required	<u>6,225,480</u>	<u>6,115,457</u>	<u>5,804,267</u>	<u>5,298,508</u>
<b>Excess Income (Loss) To The Pension Reserve Fund</b>	<u>(\$3,482,401)</u>	<u>\$13,386,134</u>	<u>\$26,836,141</u>	<u>\$48,344,476</u>

## SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2015		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$8,256,694	1.4%
Pooled Alternative Investment Funds	5,537,389	1.0%
Pooled Real Estate Funds	6,002,240	1.0%
PRIT Core Fund	<u>554,348,825</u>	<u>96.6%</u>
<b>Grand Total</b>	<u>\$574,145,149</u>	<u>100.0%</u>

For the year ending December 31, 2015, the rate of return for the investments of the Worcester Regional Retirement System was 0.92%. For the five-year period ending December 31, 2015, the rate of return for the investments of the Worcester Regional Retirement System averaged 7.37%. For the 31-year period ending December 31, 2015, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Worcester Regional Retirement System was 8.09%.

The composite rate of return for all retirement systems for the year ending December 31, 2015 was 0.91%. For the five-year period ending December 31, 2015, the composite rate of return for the investments of all retirement systems averaged 7.49%. For the 31-year period ending December 31, 2015, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.14%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

The Worcester Regional Retirement System has more than ninety per-cent of their funds invested in the PRIT fund managed by the PRIM Board. Certain residual investment agreements related to holdings of Pooled Alternative Investments and Pooled Real Estate Funds could not be abrogated and remain under the care and custody of the Worcester Regional Retirement System. Such residual investments generally consist of limited partnership subscriptions for a specific term. These terms are fixed for a period usually not to exceed ten years. As a result, the supplemental investment regulations that were previously approved by the Public Employee Retirement Administration Commission and remain on file at PERAC have been effectively rescinded, except as they pertain to the residual holdings referenced above. A complete list of these regulations is available upon written request and can be accessed via the internet at the following address:

<https://www.mass.gov/service-details/worcester-regional-retirement-board-investment-regulations>.



# NOTES TO FINANCIAL STATEMENTS

## NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Worcester Regional Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

### ADMINISTRATION

There are 104 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

### PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

#### **Group 1:**

General employees, including clerical, administrative, technical and all other employees not otherwise classified.

#### **Group 2:**

Certain specified hazardous duty positions.

#### **Group 4:**

Police officers, firefighters, and other specified hazardous positions.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6% after achieving 30 years of creditable service.

### RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

### RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

### SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2.

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if classified in Group 4.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.
- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.
- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.
- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .125% reduction is applied for each year of age under the maximum age for the member's group.

### DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

### DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

#### ORDINARY DISABILITY

**Eligibility:** Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s. 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”. “Maximum age” applies only to those employees classified in Group 4 who are subject to mandatory retirement.

**Retirement Allowance:** For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### ACCIDENTAL DISABILITY

**Eligibility:** Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

**Retirement Allowance:** 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$846.12 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

### ACCIDENTAL DEATH

**Eligibility:** Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

**Allowance:** An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$846.12 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death. In addition, an eligible family member may receive a one-time payment of \$150,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is \$9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is \$12,000.

### DEATH IN ACTIVE SERVICE

**Allowance:** An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to \$6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

### COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of \$1,000. For many years the COLA base was calculated based upon the first \$12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

**Option A:** Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

**Option B:** A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

**Option C:** A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

### ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. In certain circumstances, if a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-rata may not be undertaken. This is because such a person may receive a separate retirement allowance from each system.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

Cash accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23(2) generally govern the investment practices of the system. The Board primarily relies upon the investment strategy of the PRIM Board to maintain their progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.



## NOTES TO FINANCIAL STATEMENTS (Continued)

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Worcester Regional Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission:

#### **Membership**

October 14, 2011

The Worcester Regional Retirement Board shall have and exercise full jurisdiction to determine eligibility for membership in the retirement system.

All permanent full-time employees of the member units are eligible for membership in the Worcester Regional Retirement System.

Employees who are regularly scheduled to work 1040 hours or more in a calendar year must become members of the retirement system.

Part time, provisional, temporary, seasonal, or intermittent employment or service of fewer than 1040 hours in a calendar year is not eligible for membership.

Employees, elected officials, and appointed officials who earn less than \$5,000 per year are not eligible for membership in the retirement system pursuant to the provisions of M.G.L.c.32s.4(1)(o).

January 26, 1993

At a meeting of the Worcester County Retirement Board, a vote was taken to accept only teacher aides, who are employed for 1,040 hours or more per year.

#### **Creditable Service**

October 14, 2011

Any member in service who is employed in a full-time capacity will receive 1 month of creditable service for each full month for which the member receives regular compensation and makes contributions to the retirement system. Said service shall not exceed 1 year of creditable service in any calendar year.

Any member who is employed in a part-time capacity throughout his/her entire career will receive 1 month of creditable service for each full month for which the member receives regular compensation and makes contributions to the retirement system. Said service shall not exceed 1 year of creditable service in any calendar year.

Any member who is employed in a part-time capacity who becomes employed in a full-time capacity shall receive full credit for all full-time service and pro-rated credit for part-time service based on the full-time equivalency of 173 hours per month.

Any member who is employed in a full-time capacity who becomes employed in a part-time capacity shall receive full-time credit for all full-time service and pro-rated credit for part-time service based upon the full-time equivalency of 173 hours per month.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Any member who is employed in a part-time capacity throughout his/her entire career and has either purchased past refunded service, or has transferred into the Worcester Regional Retirement System previous service rendered in a full-time capacity will receive pro-rated credit for part-time service based on the full-time equivalency of 173 hours per month.

It is the policy of the Worcester Regional Retirement Board to accept liability pursuant to M.G.L.c.32 s.3(8)(c) consistent with this regulation for former employees of member units whose positions were funded through the federal Comprehensive Employment Training Act (CETA) and who otherwise would have been eligible for membership in the Worcester Regional Retirement System at the time said service was actually rendered.

Buyback for prior eligible service, purchase of military service, or repayments for refunded service must be made in lump-sum prior to the granting of any creditable service. It shall be the sole responsibility of the member to obtain and provide to the Board verification of this past service rendered, including but not limited to payroll records verified by the payroll coordinator for the employer or any other employee who has the similar duties of the payroll coordinator indicating the amount of compensation received and amount of hours worked for each calendar year in which service is sought to be purchased. In the event that any or all of such original documentation is unavailable, the Board may exercise its discretion pursuant to M.G.L. c. 32 s. 20(5)(c)(I), on a case by case basis, to accept alternative documentation to verify said service and compensation.

Non-certified School District employees serving in a non-teaching capacity who are continuously employed during a school year shall receive 1 month of creditable service for each full month of membership service, with 10 months being the equivalent of 1 year of creditable service. Any eligible school district employee serving in a part-time capacity shall have their creditable service pro-rated in the same manner as all members of the retirement system, as set forth in this regulation.

Any member employed in a School District whose employment requires service for the entire calendar year will receive creditable service based on a 12 month year.

#### June 30, 1986

School Employees - Full-time employees working during the school year receive 1 full year of creditable service.

#### December 28, 1984

Elected members of water district are allowed one full year of creditable service for each calendar year served as an elected official.

Cafeteria - 6 hours per day is considered a full day. The Retirement Board will allow full year service to include summer months off. If a cafeteria employee works less than 6 hours per day, 5, 4, or 3 hours per day, then service is prorated and based on a 6 hour full day and creditable service is allowed at 83%, 66% or 50% of full 12 months.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Library - If a librarian works all of the hours the library is open, that being 20 hours or more per week, then the retirement board will allow full creditable service. If a member works part-time and not the full hours of the library, then such hours worked will be prorated against the hours the library is opened.

Part-time police work - use hourly rate to determine hours worked based on 37 hours per week being full-time. All other part-time employees will have their time prorated, using a 35-hour week as full time.

Free Prior Service (before 7/1/47) or Date of Charter - \$50.00 per month equals one full year of creditable service.

School Employees - Full-time employees working during the school year receive 1 full year of creditable service.

#### **Miscellaneous**

October 12, 2016

##### Correction of Errors

In all case in which a benefit calculation error occurs that results in an underpayment or non-payment of a pension or benefit to a member or beneficiary, or in the event of any overpayment as the result of an error to a member or beneficiary, the Board shall, consistent with the provisions of M.G.L. c. 32, §20(5)(c)(2) pay to or collect from the member or beneficiary as the case may be, the actuarial equivalent of the benefit paid or received in error. Pursuant to the Supreme Judicial Court decision in Herrick v. Essex Regional Retirement Board, 465 Mass. 801 (2013) and PERAC Memorandum #32/2013, the Board has determined that the actuarial equivalent requires that the interest to be applied will be calculated for each calendar year at 3%.

October 14, 2011

##### Applicability

These regulations shall apply to membership and creditable service calculated for member buybacks, membership transfers to other Massachusetts retirement systems, and retirement benefit calculations for members of the Worcester Regional Retirement System retiring on or after October 14, 2011.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Chairman who shall be selected by the other four Board members, a second member appointed by the advisory board, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Chairman: Kevin Blanchette, Chairman

Appointed Member: Joanne Savignac Term Expires: 12/31/21

Elected Member: Pauline M. Lajoie Term Expires: 12/31/19

Elected Member: Michael Donoghue Term Expires: 12/31/20

Appointed Member: Eugene Durgin Term Expires: 12/31/23

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

Retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts. Fidelity insurance is the only required policy coverage under Ch. 32 §21 and §23 as well as 840 CMR 17.01. The policy is designed to cover specific intentional acts such as theft, fraud or embezzlement and also specify who commits such acts, most commonly employees of the system. This coverage reimburses the system for the losses it suffers as a result of its employees' actions. It does not insure the employees for their illegal acts. Statutorily required coverage is provided by the current fidelity insurance policy to a limit of \$1,000,000 with a \$10,000 deductible issued through Travelers Casualty and Surety Company. The system also has Fiduciary coverage to a limit of \$50,000,000 under a blanket policy issued through the Massachusetts Association of Contributory Retirement Systems.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the KMS Actuaries LLC as of January 1, 2016.

The actuarial liability for active members was	\$688,111,264
The actuarial liability for inactive members was	16,263,360
The actuarial liability for retired members was	<u>665,019,176</u>
The total actuarial liability was	\$1,369,393,800
System assets as of that date were (actuarial value)	<u>594,790,118</u>
The unfunded actuarial liability was	<u><u>\$774,603,682</u></u>
 The ratio of system's assets to total actuarial liability was	 43.4%
As of that date the total covered employee payroll was	\$282,918,805

The normal cost for employees on that date was 9.4% of payroll

The normal cost for the employer was 5.5% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 7.75% per annum  
 Rate of Salary Increase: Varies based on group and service

### SCHEDULE OF FUNDING PROGRESS AS OF JANUARY 1, 2016

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a % of Cov. Payroll ( ( b-a)/c )
1/1/2016	\$594,790,118	\$1,369,393,800	\$774,603,682	43.4%	\$282,918,805	273.8%
1/1/2014	\$488,346,471	\$1,087,769,903	\$599,423,432	44.9%	\$252,829,591	237.1%
1/1/2012	\$436,671,982	\$982,796,782	\$546,124,800	44.4%	\$238,952,079	228.5%

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 6 - MEMBERSHIP EXHIBIT

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Retirement in Past Years</b>										
Superannuation	96	112	106	92	116	130	135	155	160	207
Ordinary Disability	3	1	2	2	1	2	4	1	2	3
Accidental Disability	11	6	12	10	4	16	8	8	6	11
<b>Total Retirements</b>	110	119	120	104	121	148	147	164	168	221
 Total Retirees, Beneficiaries and Survivors	 3,012	 3,014	 2,904	 3,020	 3,043	 3,105	 3,132	 3,191	 3,253	 3,505
 Total Active Members	 7,117	 7,412	 7,208	 6,911	 6,895	 6,822	 6,860	 6,613	 7,047	 7,423
<b>Pension Payments</b>										
Superannuation	\$25,122,949	\$26,324,051	\$27,610,573	\$28,827,689	\$30,262,722	\$32,237,424	\$34,261,889	\$36,630,341	\$39,363,304	\$43,753,485
Survivor/Beneficiary Payments	1,456,075	1,470,071	1,577,431	1,748,429	1,827,092	1,871,533	1,945,611	2,098,060	2,180,991	2,490,197
Ordinary Disability	350,822	368,537	395,114	421,976	434,689	468,213	517,794	529,467	525,715	521,495
Accidental Disability	3,888,592	4,103,393	4,509,949	4,665,092	4,797,651	5,173,991	5,574,567	5,935,620	6,022,223	6,760,292
Other	2,792,917	4,305,946	16,438,934	2,208,157	4,865,128	1,569,526	5,952,786	2,636,850	8,833,843	8,666,341
<b>Total Payments for Year</b>	<u>\$33,611,355</u>	<u>\$36,571,998</u>	<u>\$50,532,001</u>	<u>\$37,871,343</u>	<u>\$42,187,282</u>	<u>\$41,320,687</u>	<u>\$48,252,647</u>	<u>\$47,830,338</u>	<u>\$56,926,076</u>	<u>\$62,191,811</u>

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 7 – LEASED PREMISES

The Worcester Regional Retirement Board leases approximately 4,683 square feet of space for its offices located at Suite 106 23 Midstate Drive, Auburn, MA. They signed a second amendment extension for an additional 5-year term which will expire May 31, 2022. The landlord is Paino Associates LLC.

The following schedule displays the minimum lease obligations on non-cancelable operating leases as of December 31, 2015:

<u>For the year ending:</u>	<u>Annual Rent</u>
2016	\$79,611.00
2017	80,977.75
2018	81,952.50
2019	81,952.50
2020	81,952.50
2021	81,952.50
2022 (5 months)	<u>34,146.90</u>

Total future minimum lease payments required	<u>\$522,545.65</u>
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PERAC

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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chairman*

JOHN W. PARSONS, ESQ., *Executive Director*

Auditor SUZANNE M. BUMP | KATHLEEN M. FALLON | KATE FITZPATRICK | JAMES M. MACHADO | RICHARD MacKINNON, Jr. | JENNIFER F. SULLIVAN

September 1, 2021.

Kevin Blanchette, Chairman  
Worcester Regional Retirement System  
23 Midstate Drive, Suite 106  
Auburn, MA 01501

**REFERENCE:** Report of the Examination of the Worcester Regional Retirement System for the four-year period from January 1, 2012 through December 31, 2015.

Dear Chairman Blanchette:

The Public Employee Retirement Administration Commission has completed a follow-up review of the findings and recommendations contained in its audit report of the Worcester Regional Retirement System (WRRS) for the period referenced above. We conduct these visits as a regular part of the oversight process to ensure the timely implementation of the recommendations contained in that report. The examination also addressed the other matters discussed at the completion of the audit. The results are as follows:

***1. The Audit Report cited a finding that deductions were inaccurate in the auditor sample. There were math errors in the calculation of members' base deductions, problems with 2% deductions, pay types that are not regular compensation but had retirement deductions taken, and members that did not have any deductions withheld.***

**Follow-up Result:** We reviewed the Board's evidence that the deductions are now being handled correctly. Most of the mistakes identified in the audit have been corrected. Additionally, Board staff have found other issues while performing their own internal audits after taking steps to continuously review for issues. This issue is largely resolved.

***2. The Audit Report cited a finding regarding the lack of credit card regulations, supporting documentation of credit card expenses, timely requests for reimbursement of travel expenses and signatures on the expense warrant reports as of the Board meeting date.***

**Follow-up Result:** The System has submitted travel regulations which were approved by PERAC on October 4, 2019. The regulations include Board credit card use for travel related expenses only. We noted that the credit card was used for non-travel expenses such as the purchase of flowers, software packages and pre-stamped envelopes.



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Supporting documentation of all credit card expenses in our follow up testing was provided. We also noted that the requests for reimbursement of travel expenses were timely submitted and expense warrants are being signed off by the Board as of the date of the Board meeting. This issue is largely resolved.

**3. The Audit Report cited a finding that accounts receivables and payables were posted annually but were only zeroed out at the end of each year.**

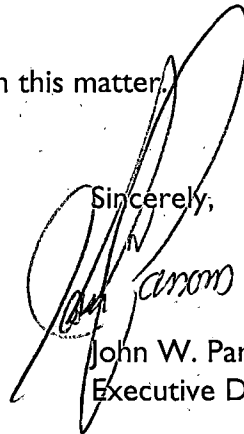
**Follow-up Result:** The System has changed their accounting to record the receipts and disbursements within the receivable and payable accounts as they occur during the following year. This issue is resolved.

The additional matters discussed have been reviewed and are all resolved.

The Commission wishes to acknowledge the effort demonstrated by the staff of the Worcester Regional Retirement System to correct many of the issues from the most recent examination of the system.

Thank you for your continued cooperation in this matter.

Sincerely,

A handwritten signature in black ink, appearing to read 'John W. Parsons', is written over the word 'Sincerely,'.

John W. Parsons, Esq.  
Executive Director

JWP/scm

cc: Worcester Regional Retirement System Members